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SIPDIS

STATE FOR NEA/ELA and EB/MTA
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TAGS: ETRD ECON EG USTR
SUBJECT: 2006 NATIONAL TRADE ESTIMATE REPORT FOR ARAB LEAGUE

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¶1. The impact of the Arab League boycott of Israel on U.S. trade and investment the Middle East and North Africa varies from country to country. While it remains a serious barrier for U.S. firms attempting to export to some countries in the region from Israel, the boycott has virtually no effect on U.S. trade and investment in many other countries in the region. This is particularly true for the many countries that have chosen not to enforce the secondary aspect of the boycott that discriminates against foreign firms doing business with Israel. Arab League members include the Palestinian Authority and the following states: Algeria, Comoros, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Mauritania, Morocco, Somalia, Sudan, Syria, Tunisia, Yemen, and the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates).

¶2. The United States continues to oppose the boycott, and U.S. government officials have urged Arab League members to end its enforcement. Toward that goal, U.S. embassies and government officials raise the boycott with host country officials, noting the persistence of illegal boycott requests and the impact on both U.S. firms and on the countries' ability to expand trade and investment. Under U.S. antiboycott legislation enacted in 1978, U.S. firms are prohibited from responding to any request for information that is designed to determine compliance with the boycott, and are required to report receipt of any such request to the U.S. Department of Commerce's Office of Antiboycott Compliance (OAC).

¶3. The primary aspect of the boycott prohibits the importation of Israeli-origin goods and services into boycotting countries. This conflicts with the obligation of Arab League member states that are also members of the World Trade Organization to treat Israeli imports on a Most Favored Nation (MFN) basis. The secondary and tertiary aspects of the boycott discriminate against U.S. and other foreign firms that wish to do business with both Israel and boycotting countries. These constrain U.S. exports to the region. The secondary aspect of the boycott prohibits individuals -- and private and public sector firms and organizations -- in Arab League countries from engaging in business with U.S. and other foreign firms that contribute to Israel's military or economic development. Such firms are placed on a blacklist maintained by the Damascus-based Central Boycott Office (CBO), a specialized bureau of the Arab League. The tertiary aspect of the boycott prohibits business dealings with U.S. and other firms that do business with blacklisted companies.

¶4. While the legal structure of the boycott in the Arab League remains unchanged, its enforcement varies widely from country to country. Some member governments of the Arab League have consistently maintained that only the Arab League as a whole can revoke the boycott. Other member governments support the view that adherence to the boycott is a matter of national discretion, and a number of states have taken steps to dismantle some aspects of it.

¶5. Enforcement of the boycott remains the responsibility of individual member states and enforcement efforts vary widely from country to country. Egypt has not enforced any aspect of the boycott since 1980, pursuant to its peace treaty with Israel, although U.S. firms occasionally find some government agencies using outdated forms containing boycott language. Jordan ended its enforcement of the boycott with the signing of its peace treaty with Israel in 1994. Algeria, Morocco, Tunisia, and the Palestinian Authority do not enforce the boycott.

¶6. In September 1994, the GCC countries announced an end to the secondary and tertiary aspects of the Arab League boycott of Israel, eliminating a significant trade barrier to U.S. firms. In December 1996, the GCC countries recognized the total dismantling of the boycott as a necessary step to advance peace and promote regional cooperation in the Middle East and North Africa. Although all GCC states are complying with these stated plans, some commercial documentation continues to contain boycott

language. U.S. companies are required to notify the U.S. Department of Commerce's Office of Antiboycott Compliance when they receive such documentation.

¶7. Bahrain does not have any restrictions on trade with U.S. companies that have relations with Israeli companies. Outdated tender documents in Bahrain occasionally refer to the secondary and tertiary aspects of the boycott, but such instances are usually quickly remedied. Israeli products are occasionally found in the Bahraini market. Kuwait no longer applies a secondary boycott of firms doing business with Israel, and has taken steps to eliminate all direct references to the boycott of Israel in its commercial documents. Kuwait still applies a primary boycott of goods and services produced in Israel.

¶8. In January 1996, Oman and Israel signed an agreement to open trade missions in each country. However, in October 2000, following the outbreak of the second Intifada, Oman and Israel suspended these missions. Omani customs formerly processed Israeli-origin shipments entering with Israeli customs documentation. However, Omani firms have recently reportedly avoided marketing any identifiably Israeli consumer products. Israeli immigration stamps in third country passports are not an issue. Telecommunications links and mail flow normally between the two countries. In April 1996, Qatar and Israel agreed to exchange trade representation offices. The Israeli trade office opened in May 1996 and remains open. Qatar does not practice the Arab Boycott, but some government tender documents and laws still include outdated boycott language.

¶9. Saudi Arabia enforces only the primary level of the Arab League boycott on Israeli products. If a foreign company is found to have imported an Israeli-made product, or a product with some Israeli content, the Saudis will ban that company from exporting to the Kingdom. Usual practice has been that the Saudi government will remove its ban after the company agrees to stop shipping Israeli products. In 2003, according to press reports, Saudi Arabia banned three American companies for violating the primary boycott. Saudi Arabia acceded to the WTO in December 2005, and is now obligated to accord all imports, from Israel or other WTO member states, MFN treatment. Further Saudi enforcement of the boycott would thus violate the terms of the WTO.

¶10. U.S. firms have faced boycott requests in the United Arab Emirates as a result of bureaucratic and administrative inefficiencies, rather than efforts to circumvent UAE government policy not to enforce the secondary and tertiary aspects of the boycott. The UAE is taking steps to eliminate these prohibited boycott requests.

¶11. A U.S. soft drink manufacturer operating in Iraq is reportedly encountering problems with the Iraqi Interim Government due to the boycott.

JONES